# Your Guide to Product Pricing to Make Maximum Profits

NOVEMBER 18, 2019 7 MINS READ




In the world of entrepreneurship, one of its biggest aspects is how you sell your product. Putting the right price on your product is incredibly instrumental in determining how your business works. If you put a low price on it, it may end up with earnings that do not even cover your expenses and if you put a high price, you will end up not making enough sales. This is where you need to build a strong game around how to price your product or services in the right manner.  There are several pricing strategies that you can use to get the right pricing of your product. Some of the popular pricing strategies are premium pricing, bundle pricing, economy pricing, psychology pricing, penetration pricing, price skimming, value pricing, promotional pricing and cost-based pricing. Each strategy has a slightly different concept for helping you in pricing. However, here we are talking about some of the key aspects that you need to keep in mind while using any of these strategies. Utilising such points will help you no matter what and therefore this should be definitely included in your business plans.

# Difference between price, cost and value

One of the first things you need to know as an entrepreneur is a difference between price, cost and value. The cost of the product is basically the amount of money you spent on creating it, the expenses related to a product. The price of the product is the financial reward you get from a user or customer. The value of the product is what the customer believes to have gained from the product. The value is basically what the product or service is worth to the client or customer. Once you have a clear understanding of all three terms, you will be able to reduce the overall cost, improve the price and make it more valuable for the user. When all three aspects fall into place, this is when you hit the right business.

Following are some of the major things you need to gain a better understanding of how pricing your service or product works.

# Know your customer

First and foremost, you must have a clear understanding of the audience you are targeting. All your marketing plan will be according to that and hence nailing this aspect is extremely detrimental. You must have substantial knowledge regarding the demographics of a product. You need to have a strong marketing plan ready to understand the behavioural patterns of your potential customers and what kind of searches they are doing. This helps you in coming up with the right pricing in the respective domains. If your customer does not feel the pricing is right, he/she will definitely not make the purchase. This is the reason why knowing your customers' thinking process matters.

# Know your product

You yourself should have an idea about the viability of your product. You cannot be in your own bubble while pricing it. If your product or service is actually worth Rs 1000 but you hope

to price it around Rs 10,000, you are more likely to hit a major roadblock in terms of selling your product. You need to understand what your product actually means to your audience. This is where understanding the value of a  product comes into play as it can help you a lot in pricing.

# Know your competitors

Now, this is a big thing to keep in mind while pricing a product. If you do not stay at par with your competitors during the initial years of your business, it can be a real game-changer in your business plan. No customer would like to pay extra for the same service or quality. If you are a beginner, you first need to make sure that more people buy your product and for that, you have to come up with lower prices. Once they buy your product repeatedly, the trust value increases a lot. This is where you can gain over your competitors in the field. Once you hit a good number of customers, you can start increasing the price of your services or products. However, keeping quality high is equally important while increasing the prices.

# Know where the product is heading to

The biggest aspect of an entrepreneur is to know where the product is heading to. You need to always stay ahead of the market trends to be in the game. You need to keep all the outside factors in check that can determine the outcome of your product or service in a huge way. It can be negative or positive but you should be smart enough to incorporate it in your business plan. If you see a positive change then increasing your prices will not do any harm but you should be brave enough to lower your prices when the market is going down. You should also be smart enough to tackle the external aspects in a way that it would not hit your business in a huge way.

# Know your costs

The most basic thing about business is that you need to cover your costs and then factor in the profits while thinking about the pricing. The costs include overhead charges like transportation, electricity bills, rent and other such secondary and tertiary factors as well. The next thing you need to make sure is the amount of profits you want from your services or products. Set a margin, a percentage to get a better understanding. You must also include the savings you want to have from your earnings for the expansion project. For all this, the first thing you need to do is to cover all your costs from your pricing. That will help you break even and then you can take it forward.

## Know your revenue target

While planning the business plan, you should always have a revenue target. This will help you in pricing in a huge way. Once you know the target, you can divide the pricing accordingly to different products or services. If you have just one service then this process becomes even better. For multiple products, come up with different revenue targets and then allocate the pricing accordingly.

## When to raise your prices?

You should always experiment with different prices, different offers and multiple combinations to give your customers great offers. Throughout this process of price fluctuation, make sure that you are keeping track of all the changes involved in the product sale and then make the necessary changes accordingly. If you never raise your prices, you will never be able to grow and that is not something you want with your business. You must raise the prices if you feel that the services you offer deserve much better.

## When to lower your prices?

When you realize that you are losing out on a major chunk of your customers due to overpricing, you must immediately lower your prices. There is no point in keeping the prices the same

when you are not making enough money. You must always remember that hitting a huge number of customers is much better than hitting a huge number in the earnings. More the customers you have better it is for your business. However, you must only lower your price strategically to get the best out of the market. Random lowering of prices will hit your business in a huge way.

Now that you have gone through this elaborate piece of information, you must have got an idea about how different factors play a crucial role in determining the price of a particular service or product. Be wise and smart while making these tough decisions as it can change the face of your business forever.